MOTOROLA SOLUTIONS

# Q1 2022 Earnings Conference Call
# Thursday, May 12, 2022

## PARTICIPANTS

### Motorola Solutions Executive Participants

**Tim Yocum** – Vice President, Investor Relations
**Greg Brown** – Chairman & Chief Executive Officer
**Jason Winkler** – Executive Vice President & Chief Financial Officer
**Jack Molloy** – Executive Vice President and Chief Operating Officer
**Mahesh Saptharishi** – Executive Vice President and Chief Technology Officer

### Other Participants

**Keith Housum** – Analyst, Northcoast Research Partners LLC
**George C. Notter** – Analyst, Jefferies LLC
**Paul Silverstein** – Analyst, Cowen & Co. LLC
**Meta A. Marshall** – Analyst, Morgan Stanley & Co. LLC
**Sami Badri** – Analyst, Credit Suisse Securities (USA) LLC
**Ben Bollin** – Analyst, Cleveland Research Co. LLC
**Fahad Najam** – Analyst, Loop Capital Markets LLC
**Louie DiPalma** – Analyst, William Blair & Co. LLC
**Jim Suva** – Analyst, Citigroup Global Markets, Inc.

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon and thank you for holding. Welcome to the Motorola Solutions First Quarter 2022 Earnings Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time.

The presentation materials and additional financial tables are posted on the Motorola Solutions' Investor Relations website. In addition, a webcast replay of this call will be available on our website approximately two hours after the conclusion of this call. The website address is www.motorolasolutions.com/investor.

All participants have been placed in a listen-only mode. You will have an opportunity to ask questions after today's presentation. [Operator Instructions]

I would now like to pass the conference over to Mr. Tim Yocum, Vice President of Investor Relations. Mr. Yocum, you may begin your conference.

### Tim Yocum, Vice President, Investor Relations

Good afternoon. Welcome to our 2022 first quarter earnings call. With me today are Greg Brown, Chairman and CEO; Jason Winkler, Executive Vice President and CFO; Jack Molloy, Executive Vice President and COO; and Mahesh Saptharishi, Executive Vice President and CTO. Greg and Jason will review our results along with commentary, and Jack and Mahesh will join for Q&A.

We've posted an earnings presentation and news release at motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. And during the call, we will reference non-GAAP financial results including those in our outlook, unless otherwise noted.

A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Information about factors that could cause such differences can be found in today's news release, comments made during the conference call, in the Risk Factors section of our 2021 annual report on Form 10-K, and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statements.

With that, I'll turn it over to Greg.

**Greg Brown, Chairman & Chief Executive Officer**

Thanks, Tim. Good afternoon, and thanks for joining us today. I'm going to start off by sharing a few thoughts about the overall business before Jason takes us through our results and our outlook.

First, I'm really pleased with our strong start to the year as we achieved sales and earnings per share above our guidance, in spite of the challenging macroeconomic and supply chain environments that we continue to navigate.

During the quarter, we saw record Q1 orders and record Q1 sales, highlighted by our video security and access control business, which grew 21% in revenue, with even higher growth in orders. We also finished the quarter with a record Q1 ending backlog of $13.4 billion, up 19% versus last year.

Second, we continue to see strong demand across all three technologies, driven in part by a robust funding environment for our customers. In land mobile radio, we're seeing continued investment in regional, statewide, and even country-wide networks that further reinforces the longevity and criticality of this technology. And in our higher-growth areas of video and command center software, our investments in cloud and artificial intelligence are differentiating us from our competitors.

Total software revenue was up 17% during the quarter, including 28% growth in software for our video security and access control business and 9% growth in command center Software.

And finally, our expectation for full-year guidance remains unchanged. As this year has progressed, we've seen incremental headwinds related to higher freight costs, a stronger dollar, and the dilutive impact of the Ava Security acquisition. However, these headwinds are being offset by further pricing actions, stronger demand, favorable mix, and targeted cost reductions.

I'll now turn the call over to Jason to take you through our results and outlook before returning for some final thoughts.

**Jason Winkler, Executive Vice President & Chief Financial Officer**

Thanks, Greg. Our Q1 results included revenue of $1.9 billion, up 7% and above our guidance, driven primarily by better-than-anticipated supply for LMR. Revenue from acquisitions was $17 million, and currency headwinds were $18 million. GAAP operating earnings of $239 million and operating margin of 12.6% compared to 16.8% of sales in the year-ago quarter.

Non-GAAP operating earnings of $374 million, down $37 million or 9% from the year-ago quarter, and non-GAAP operating margins of 19.8% of sales, down from 23.2%. This decline in operating earnings was primarily due to the $50 million of higher semiconductor costs that we outlined on our last call related to the acquiring critical supply in the secondary market for semiconductors. Additionally, we saw higher freight costs driven by elevated air freight rates and higher operating expenses related to acquisitions, partially offset by higher sales.

GAAP earnings per share of $1.54 compared to $1.41 in the year-ago quarter. The increase was primarily due to a deferred tax benefit in the current quarter related to the reorganization of intellectual property.

Non-GAAP EPS of $1.70 per share compared to $1.87 last year, a decrease primarily due to the operating earnings impact I described related to higher semiconductor and freight costs and increased operating expenses from acquisitions, partially offset by higher sales and a lower tax rate.

OpEx in Q1 was $492 million, up $37 million versus last year, primarily due to higher expenses related to M&A, investments in video, and higher selling costs commensurate with our higher sales.

Turning next to cash flow, Q1 operating cash flow was $152 million compared with $370 million in the prior year, and free cash flow was $98 million compared to $318 million in the prior year. The decrease in cash flow was primarily due to our planned increase in inventory as we invest to meet the strong products demand we're seeing from our customers in video and LMR.

Capital allocation for Q1 included $493 million in share repurchases, $134 million paid in cash dividends, and $54 million of CapEx. Additionally, during the quarter, we closed the acquisitions of Ava Security for $387 million and TETRA Ireland for $120 million. And subsequent to quarter-end, we acquired Calipsa, a leader in cloud-based advanced video analytics for $40 million. And just earlier today, we announced the acquisition of Videotec, a global supplier of pan-tilt-zoom and explosion-proof cameras for $22 million. Videotec enhances our portfolio of NDAA-compliant fixed video cameras.

Moving next to our segment results, Q1 Products and System Integration sales were $1.1 billion, up 9%, driven by anticipated strong growth in video and better supply availability in LMR. Revenue from acquisitions in the quarter was $7 million and currency headwinds were $8 million.

Operating earnings were $96 million or 8.7% of sales, down from 12.9% in the prior year, driven by the $50 million of higher semiconductor costs and higher freight costs previously mentioned, partially offset by higher sales.

Some notable Q1 wins and achievements in this segment include an over $60 million nationwide P25 order for Taiwan National Police, $20 million of P25 upgrade orders for Los Angeles Unified School District, a $14 million TETRA upgrade for the Israeli Railways, $11 million P25 expansion for a large US customer, and a $5 million video order for a large US public school system.

Moving next to our Software and Services segment, Q1 revenue was $789 million, up 4% from last year. Revenue from acquisitions was $10 million and currency headwinds were also $10 million.

Growth in the segment was driven by video security and command center software, while LMR services was approximately flat as expected due to the impact of a tough comp related to customers' P25 system upgrades that were concentrated in the first quarter of 2021 due to the COVID delays throughout 2020 and the impact of unfavorable FX.

Operating earnings were $278 million or 35% of sales, down 170 basis points from last year, driven by a change in year-over-year mix and higher M&A operating expenses, partially offset by higher sales. For the full year, we still expect Software and Services revenue growth of 10%. And we expect operating margins that are comparable to last year, with the dilutive impact of recent M&A, offset by pricing and improved operating leverage.

Some notable Q1 highlights in the segment include $27 million command center software order for a customer in Latin America, a $20 million US federal multiyear service contract orders, $8 million command center software record management order for the City of Phoenix, and an $8 million services agreement with the City of Chicago.

During the quarter, we grew our video security and access control software revenue by 28%. And subsequent to the quarter-end, we launched the Public Safety Threat Alliance, a cybersecurity information sharing and intelligence hub for the public safety community.

Looking next at our regional results, North America Q1 revenue was $1.3 billion, up 10% on growth across all three technologies. International Q1 revenue was $587 million, flat versus last year with growth in video security and command center software, offset by a decline in LMR due to FX. We saw growth in Latin America and Asia-Pac, while Europe was slightly down, primarily due to FX.

Moving to backlog. Ending backlog was a Q1 record of $13.4 billion, up 19% or $2.1 billion compared to last year, driven by the Airwave extension recorded in the fourth quarter of 2021 and increased demand across all three technologies. Sequentially, backlog was down $115 million, driven primarily by the Airwave and ESN revenue burn during the quarter, partially offset by growth in LMR and video products.

Software and Services backlog was up $1.3 billion compared to last year, driven by the Airwave extension and a $320 million increase in multiyear Services and Software backlog in North America. Sequentially, backlog was down $221 million or 2%, driven primarily by revenue recognition for Airwave and ESN during the quarter and typical order seasonality in North America.

Products and SI backlog was up $852 million compared to last year and up $106 million sequentially, driven by primarily by strong LMR and video demand in both regions.

We entered the year with a record backlog position and approximately $2.2 billion of our beginning backlog in the products segment was scheduled to be delivered in 2022, with over two-thirds of this amount expected to be delivered in the first half. We saw continued strong demand for new orders during the quarter with a record Q1 orders total that included comprehensive pricing actions we implemented across our portfolio in January. We expect these new orders at higher prices together with higher volumes in the second half to lead to a significant profitability ramp throughout the year.

Turning to our outlook, we expect Q2 sales to be up between 4% and 5%, with non-GAAP EPS between $1.83 and $1.88 per share. This assumes approximately $50 million of FX headwinds, a diluted share count of approximately 173 million shares, and an effective tax rate of 22% to 23%. It also includes $50 million of year-over-year increased costs that we described on our last earnings call related to elevated material costs for semiconductor supply from secondary markets.

For the full year, we are maintaining our prior revenue guidance of 7% growth and non-GAAP EPS guidance between $9.80 and $9.95 per share, despite the significant strengthening of the US dollar since our last call. We now expect FX to be a headwind of $170 million for the year, up $110 million from our prior guidance. This outlook now assumes a diluted share count of approximately 173 million shares based on the timing of our share repurchases in the year and an effective tax rate of 21% to 21.5%.

Additionally, our full-year operating cash flow guidance for approximately $1.9 billion and full-year OpEx expectations of approximately a $100 million increase over last year are also unchanged, inclusive of the new acquisitions we announced. offset by targeted reductions we're making.

Before I turn the call back to Greg, I wanted to reiterate some of the proactive measures we've been taking to navigate this dynamic environment. First, amid strong demand, we've taken further pricing actions across various parts of our portfolio, which we expect to benefit our second half of the year. We remain cost disciplined with targeted OpEx cost reductions planned while funding our recent acquisitions. We are strategically investing in inventory to maximize the parts availability to fulfill the strong demand that we're seeing. And finally, we continue to be good stewards of capital, maintaining a strong balance sheet to be opportunistic and deploying capital on acquisitions and shareholder returns.

I would now like to turn the call back to Greg.

**Greg Brown, Chairman & Chief Executive Officer**

Thanks, Jason. I thought I would end with a few thoughts on the business.

First, business remains really strong. Despite the ongoing macroeconomic and semiconductor challenges, we had record Q1 orders in sales that drove results above our expectations. We ended the quarter with our highest Q1 ending backlog ever, and our higher-growth businesses in video security and command center software continue to grow at a multiple of their overall markets.

Second, our healthy balance sheet and durable cash flow provides us with the flexibility to be opportunistic in our deployment of capital. During the quarter, we closed two additional acquisitions I'm excited about. TETRA Ireland, the provider of Ireland's nationwide digital radio service for first responders, is a business we've had our eye on for a while, actually, and it adds to our strong LMR managed services business.

And Ava Security, a scalable, secure, and flexible cloud solution, provides customers with the benefits of an enterprise-grade video security solution, while minimizing the physical footprint of their security infrastructure. Ava complements our on-prem offerings in fixed video security and provides us with the flexibility to meet our customers where they are with options for both cloud or on-prem solutions.

And finally, while the macroeconomic environment remains turbulent, I like our position. We're a leader in the markets we serve. We provide need-to-have solutions that are critical for customers. We continue to invest heavily in R&D, and all of this provides us with the ability to take continued pricing actions to manage higher cost pressures.

Additionally, we have strong predictable cash flows that allows us to continue to invest in our growth businesses, while simultaneously returning capital to shareholders in the form of share repurchases and dividends.

I'll now turn the call back over to Tim.

**Tim Yocum, Vice President, Investor Relations**

Thank you, Greg. Before we begin taking questions, I'd like to remind callers to limit themselves to one question and one follow-up to accommodate as many participants as possible.

Operator, would you please remind our callers on the line how to ask a question?.

## QUESTION AND ANSWER SECTION

**Operator**: The floor is now open for questions. [Operator Instructions] The first question is from Keith Housum with Northcoast Research. Your line is now open.

**<Q – Keith Housum – Northcoast Research Partners LLC>:** Good afternoon, guys. I appreciate the opportunity here. It sounds like you guys have been able to navigate the supply chain challenges fairly well. I noticed you guys said that $50 million in extra costs for the first quarter, but can you guys talk about the supply, the visibility into the supply for the rest of the year? Obviously, there have been a lot of upheavals, things going on in Shanghai recently. But any updated thoughts on where supply chain stands today?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Hey, Keith. I think our view of supply chain is it's pretty much unchanged from where it was a quarter ago. It's still very challenging. We go through week-by-week negotiations and discussions with critical suppliers on allocations.

On the good news side, I think we were more successful in Q1, getting some critical parts sooner than expected, and I think that drove and informed our overperformance in Q1. The overall environment around semiconductor constraints remains challenging. I think, Keith, realistically, we expect those challenges to exist throughout the rest of 2022.

**<A – Jason Winkler – Motorola Solutions, Inc.>:** And, Keith, you mentioned the $50 million in Q1. It's another $50 million in Q2. So, as we set out the year and described in the last call, $100 million is elevated costs that we're incurring to buy these parts at a premium in the first half, but the second half is only $20 million. That's in part driven by the elevated costs that we faced last year, so the comp, but secondly, in terms of our supply and what our teams are doing to increase the number of substitutable parts, the engineering and quality teams are doing a good job in finding alternative parts and doing well in that. And we've also shifted to air as our primary means of freight. That's what's elevating our freight costs a little bit to get the parts in a timely fashion.

**<Q – Keith Housum – Northcoast Research Partners LLC>:** Great. Appreciate the color.

**<A – Greg Brown – Motorola Solutions, Inc.>:** So semiconductor constraints – Keith, semiconductor constraints largely unchanged, as Jason dimensionalized, although freight has incrementally gotten worse as we shift more ocean to air and the overall cost is higher than was anticipated on our last call, but anticipated and included in our full year guidance.

**<Q – Keith Housum – Northcoast Research Partners LLC>:** Got you. As a follow-up, you guys had a really strong first quarter for bookings. Is there a capability – despite the challenges, are you able to get enough supply to get over and above your guidance if the demand was there?

**<A – Jason Winkler – Motorola Solutions, Inc.>:** Our guidance for the quarter and the year is a compilation of the demand and then matched to the supply that we have and foresee in terms of deliveries. So nothing's changed there. We overperformed in Q1 largely because we were able to get the supply and allocate it purposefully to parts of the portfolio, like public safety, that are important to customers. They also happen to have slightly higher ASPs.

**<Q – Keith Housum – Northcoast Research Partners LLC>:** Got you. Thanks, guys. Good luck.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, Keith.

**<u>Operator</u>**: Thank you, Keith. The next question is from the line of George Notter with Jefferies. You may proceed.

**<Q – George Notter – Jefferies LLC>:** Hi, guys. Thanks very much. I guess I wanted to just quiz you on the full-year guidance. You're keeping the 7%, but it seems like there's a lot of moving parts in there, and I'm just wondering how it all kind of nets out. So, you have $110 million of additional FX headwinds. You've got a bunch of new M&A deals in here. Pricing has gone up. I guess I'm wondering what it looks like when you kind of peel all that back. Is your guidance better or worse than maybe you thought three months ago?

**<A – Jason Winkler – Motorola Solutions, Inc.>:** You mentioned $110 million in FX. That's absolutely correct. The incremental M&A that we've acquired since we last talked is $60 million. Additionally...

**<A – Greg Brown – Motorola Solutions, Inc.>:** Of net new revenue.

**<A – Jason Winkler – Motorola Solutions, Inc.>:** Of net new revenue.

**<A – Greg Brown – Motorola Solutions, Inc.>:** In the period.

**<A – Jason Winkler – Motorola Solutions, Inc.>:** Additionally, in terms of – you mentioned price. We're absolutely looking at that and have made some changes across the portfolio. And the third item is favorable mix. So what we – where we prioritize and allocate our supply to.

**<A – Greg Brown – Motorola Solutions, Inc.>:** And we acquired Ava, and Ava is about $0.10 dilutive to EPS for the full year. So net-net, we've got incremental headwinds as you talked about, George, of FX, incremental headwinds with freight, some M&A, higher costs than our last call, but that's balanced out by favorable mix, particularly as we index toward higher-tier shipments. We continue to take pricing actions. I think tax rate will be a little bit better, and share count will be lower.

So, all in all – and by the way, at the end of the day, I think demand is as strong or maybe even stronger today than it was back in February.

**<Q – George Notter – Jefferies LLC>:** Got it. And then just continuing on that, could you give us a sense for the magnitude of the pricing increases? I think you said January was the time you instituted those. Is that correct? And then, when do you think those will be fully in the model?

**<A – Jason Winkler – Motorola Solutions, Inc.>:** So we've been looking at price for a number of quarters. The most recent ones were January. I mentioned on the call that the backlog that we began the year with was $2.2 billion. That's largely going to fuel the first half. So the orders January onward are going to fuel the second half, and that's where our most recent pricing actions are.

When I think about Products, the segment, in terms of what's driving the growth we expect this year for our Products segment of mid-single digit growth, within LMR, the driver is largely price and mix favorability, and then within video, which is the higher-growth part, it's price and volume that are driving the growth we expect there.

**<Q – George Notter – Jefferies LLC>:** Got it. All right. Super. Thank you very much.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, George.

**Operator**: Thank you, George. The next question is from the line of Paul Silverstein with Cowen. Your line is now open. Paul, please check to make sure you're not muted.

**<Q – Paul Silverstein – Cowen & Co. LLC>:** My apologies. Guys, I apologize if you answered this in your prepared remarks, but with the improvement in some of your key sectors in your professional, in your PCR business, are you seeing that translate to an improved outlook? Hospitality has obviously improved significantly. Oil and gas prices are up, albeit I'm not sure how much that's improved that industry, but are you seeing any improvement there?

**<A – Jason Winkler – Motorola Solutions, Inc.>:** So with PCR, we expect it to grow this year mid-single digits. It was flat in Q1. The demand for PCR is very robust. The limiting, or gating item is supply around PCR.

So, Jack, if you want to talk about markets?

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Paul, I think the two markets that we've seen the most profound rebound kind of post-COVID have been air transportation and hospitalities. I think the next to follow will be commercial real estate as we get people back to work in major cities. We're starting to see upgrades even in our building. We'll see upgrades on the communications front there. But it's really been air and hospitality this year.

**<Q – Paul Silverstein – Cowen & Co. LLC>:** For my follow-up, I appreciate you just increased prices, but everybody's citing stepped-up component costs. Any thoughts you can share on longer-term margins, where they got and what timeframe on the gross line?

**<A – Jason Winkler – Motorola Solutions, Inc.>:** Sure. So headline inflation, we're navigating it, like all companies have been planning for, a significant inflation number that we've been seeing. We have two unique cost inflation items that we believe are temporal. One, we're paying a premium for semiconductors that aren't available directly from the manufacturer and getting them through alternative secondary markets. That's $120 million that was in the P&L this year as we get after that critical supply.

Secondly, the freight levels that we're incurring this year are also – air rates are frankly high. They got higher after the Ukraine invasion and they remain high. So, those are two temporary items that we're navigating around as well as general inflation.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah. And, Paul, I would also say that taking all those things into account, we still expect full-year gross margins to be comparable for MSI and operating margins to be slightly up for full year 2022.

**<Q – Paul Silverstein – Cowen & Co. LLC>:** Great. I appreciate it. Thank you.

**Operator**: Thank you, Paul. The next question is from the line of Meta Marshall with Morgan Stanley. Your line is now open.

**<Q – Meta Marshall – Morgan Stanley & Co. LLC>:** Great. Thanks. Maybe starting – I noticed you guys talked about strong order activity kind of across the board, but just wanted to get a sense of – was there any changes by region? So, anything notable in the Europe region maybe more specifically? Maybe start with that. And then I have a follow-up question.

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Sure, Meta. I think, so as it applies to Europe, first of all, I just want to remind you, half of our revenue in Europe is actually recurring revenue, so think large-scale managed service businesses. In Q1, internationally, we'd have been up – we're up 3% in constant currency, so really the FX headwind that Jason alluded to really impacted Europe to the greatest extent.

But I would say this. Our challenges in Europe and really quite frankly in international are not demand-related. Demand remains very robust. It remains very robust in Europe, not only in video security and access control, but our command center software as well as our land mobile business.

So I think the biggest challenge I would say is really currency right now.

**<A – Greg Brown – Motorola Solutions, Inc.>:** And, Meta, just as a footnote, as it relates to Russia, contextually, we've exited that market. It was pretty de minimis for us to begin with. Full-year revenue on Russia last year was $25 million. So, we've exited that market. We don't have Motorola Solution employees in that theater any longer. So, just as a footnote, I thought that could be helpful as well.

**<Q – Meta Marshall – Morgan Stanley & Co. LLC>:** Perfect. Very helpful. And then, maybe just on the – I just want to get a sense of – you guys obviously spoke to growing backlog. Just how much of the growing backlog is a result of supply chain challenges and inability to ship versus just some longer-term contracts coming in? Thanks. And that's it from me.

**<A – Jason Winkler – Motorola Solutions, Inc.>:** The majority of our backlog is from direct customers, governments, agencies, thousands of customers who order as their procurement cycles permit them, and so we believe that to be a very strong signal for their demand. We also have a channels business where channel inventories are very low and our channel partners are placing orders on us to replenish that inventory. So, our demand signal from our – both our direct customers and our indirect customers is pretty clean, and as Jack mentioned is growing in both sides of the business.

**<Q – Meta Marshall – Morgan Stanley & Co. LLC>:** Perfect. Thanks. Congrats, guys.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, Meta.

**Operator**: Thank you, Meta. The next question is from the line of Sam Badri with Credit Suisse. Your line is now open.

**<Q – Sam Badri – Credit Suisse Securities (USA) LLC>:** Great. Thank you. I was hoping you could elaborate on ARPA contribution. I know you guys put a couple of sentences or a sentence in your press release. Could you just walk us through contributions from explicitly ARPA that you guys are estimating?

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Hey, Sam. It's Jack. First of all, I want to – we said it before, but it's important to first of all point out that ARPA will be a multiyear phenomenon. So, our team is actually – when we look at our pipeline, which is our sales funnel, we've actually seen the three time increase over this period last year. So that's great. And a lot that is really directed at the $350 million in state and local, which really – we've never had a problem as it relates to – we're a need-to-have business. But what it really does it is draws clarity to how those deals get funded, and so we'll be in that for the next two-and-a-half, three years.

The second area where it's been very helpful is with our fixed video security and access control business, particularly around the education vertical where people are really trying – as they bring kids back to school, trying to make sure those places are safe, actually investing in things like concealed weapons technology with our Evolve partnership as well. So we think the money that's pointed which is $170 billion, there will also be a – will benefit us over the course of the next three years as well.

**<Q – Sam Badri – Credit Suisse Securities (USA) LLC>:** Got it. And then, just as a follow-up, maybe for you, Jack, again, any update on body-worn camera or fixed cameras that go on to the vehicles, like first responder vehicles, can you give us an update on that and growth rates or any kind of comments on market share?

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Absolutely. So, first of all, as it relates to body-worn, I talked about last year – from a market share context, last year, we doubled our orders. In 2021, doubled our orders in a market that certainly didn't double, so we felt like we took share.

As it relates to Q1 2022, our orders were up double-digit and I think most importantly they were up double-digit against a comp whereby last year we grew 65% in orders in Q2. And I think the only thing I would add is we announced our as-a-service offer last year, and we've actually seen acceleration in customers' willingness to choose the cloud there. So, we said before that we think that the market wants an alternative. We've got good relationships. Internationally and North America, our team continues to fight for their fair share and then some.

**<Q – Sam Badri – Credit Suisse Securities (USA) LLC>:** Got it. Thank you.

**<A – Mahesh Saptharishi – Motorola Solutions, Inc.>:** Maybe just to add to that...

**<Q – Sam Badri – Credit Suisse Securities (USA) LLC>:** Hey, Mahesh. Yes.

**<A – Mahesh Saptharishi – Motorola Solutions, Inc.>:** We launched the M500 last year. It started shipping a few months ago, a little bit earlier this year. The M500, we consider to be a significant leap up from our prior generation, the 4RE, and it builds upon a lot of the goodness that the 4RE had and 4RE from the WatchGuard legacy really has evolved with a lot of customer feedback. Critically for the M500, we've added some significant new AI capabilities. So, this is a platform that's really meant to deliver AI capabilities.

At the launch, we launched it with two capabilities, effectively officer and passenger safety, but in addition, ALPR as well. And the ALPR stream actually contributes to the other sets of ALPR cameras we have in our portfolio. These feed into one of the largest – the industry's largest license plate databases that we have. Right now, we're exceeding 50 billion plate reads. And to give you an idea of like the rate at which it gets refreshed, in Q1 of this year, we accounted for about 2.4 billion plate reads. And to give you an understanding of the frequency at which we're growing here compared to the previous year, we doubled the plate reads.

So, overall, from a mobile video standpoint and an ALPR standpoint, we're doing fantastic.

**<Q – Sam Badri – Credit Suisse Securities (USA) LLC>:** All right. Thank you.

**Operator**: Thank you. The next question is from the line of Ben Bollin with Cleveland Research. Your line is now open.

**<Q – Ben Bollin – Cleveland Research Co. LLC>:** Thanks for taking the question. Good afternoon, everyone.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Hi, Ben.

**<Q – Ben Bollin – Cleveland Research Co. LLC>:** First question, I was hoping you could share any thoughts around customer priorities with respect to command center software and refresh, and just talk to any execution you're seeing, how you think you're doing, how it's developing, kind of where it's going. And then I had a follow-up for Greg.

**<A – Mahesh Saptharishi – Motorola Solutions, Inc.>:** Sure. So the first point is that we're growing faster than the market. We're taking market share. Over half of our orders last quarter in Q1 were suite orders, effectively we either added onto existing bundles or we – customers bought more than one.

And Jason mentioned two of our large opportunities in his bit. The LA Unified School District, they bought our CAD and record solution. But not only are we seeing synergies now with our software suite, but one of the key reasons to buy there was location data integration from our LMR side as well, and that had a profound impact in that opportunity.

The City of Phoenix opportunity that Jason mentioned was driven by the national incident-based reporting criteria that the city needed to comply with, and that along with the fact that we're now integrating with the Aware solution for real-time situational awareness, that added a lot of synergy to that opportunity as well.

We had our summit in April, and the summit was the largest software summit we have ever had in Motorola history. 1,600 attendees, over 300 classes and user group sessions. We had representation across all user types going from call to case closure. There's some important themes that we hit there.

The first was the fortification theme and really what resonated there was cybersecurity. We talked about the Public Safety Threat Alliance that we launched quite recently. And as a consequence of us talking about the Public Safety Threat Alliance, within the first two weeks of the creation of it, we've had over 50 members sign up to be part of that and we expect that to rapidly increase.

We also talked extensively about our innovations in user experience, given the pieces – given the users that were represented there, and some of the – as an example, some of the AI capabilities that we talked about there really resonated with our customers.

Smart transcription is something that we have talked about previously. But smart transcription has become more than just a transcription – a speech to text transcription, but it really has become an application platform for us that we have built alongside our customers. So, not only is transcription a second pair of ears that makes sure that the call taker doesn't miss anything, we have now been able to add capabilities where smart transcription allows the call taker to benefit from the experience of other callers who have responded to similar sorts of events. So to be able to search for similar calls that others have responded to and for them to be better informed in responding to new types of events. So smart transcription has actually become an experience base for existing customers.

On top of that, based upon customer feedback, we've added capabilities for supervisors to know when to support a call taker during a call as well. And lastly, we're also extending this to now recognizing when call takers are under stress. So, these – smart transcription as a capability has really expanded our capacity to add applications for our CommandCentral software suite.

And the last part that I'll mention here is that mobile has become a significant part of what we have talked about as well. We've invested heavily in mobile, CC Responder, CommandCentral Responder has now both an iOS and an Android instance supporting our on-prem and our cloud installed, hybrid being a key priority there. And with our customer in Western Australia, we recently launched a CarPlay application that was done in collaboration with Apple and the Western Australian Police and this is the very first public safety application to be launched for CarPlay.

All of this, by the way, very much consistent with our hybrid strategy and we're seeing a fair amount of traction there.

**<Q – Ben Bollin – Cleveland Research Co. LLC>:** That's great. Thanks for all that color. The follow-up for you, Greg, when you step back and kind of look at the world, and clearly we're in a surplus demand environment and at some point supply starts to catch up. But I'm interested in how you think about monitoring inbound orders and ensuring that customers aren't running out there and placing a lot of orders, maybe with multiple vendors, perhaps ordering more than they need and just taking what comes first. How do you think about that? Obviously I think it's more PCR related, but just curious any thoughts you have there. And that's it from me. Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Ben, I was just going to say that the last part that you said, I think it is more PCR related. I think the way we do that is – I think Molloy and John Zidar during this time work really closely with the channel partners, particularly in North America, on prioritization, on active conversations, on transparency, on what they really need versus what they may think they want to try to eliminate any kind of artificial forecasting. So, I think it's a reflection of the relationships we have with the channel partners and I have to tip my hat to John Zidar who runs that organization under Molloy. I think the way you sort through that is the efficacy and the authenticity of the conversations with the partners during these tough times, and I think Molloy and his team are doing that.

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Greg, the only thing I'd add to that is – you're right, the PCR channel, by the way, it's also important to note that a lot of our partners are – carry one brand, so they're not putting orders then against a second one.

The second thing is government customers don't have the wherewithal, meaning they have a limited budget. They're not able to cut multiple purchase orders against the same budget line item. So we wouldn't have any inflation in orders on there. There's an end customer within, for instance, Cook County. If it's the Highway Department or the Sheriff's Department, they've got line item 32 is $1 million. They can't spend that twice, so we know that there's clarity of funding there.

**<Q – Ben Bollin – Cleveland Research Co. LLC>:** Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, Ben.

**Operator**: Thank you, Ben. The next question is from Fahad Najam with Loop Capital. Your line is now open.

**<Q – Fahad Najam – Loop Capital Markets LLC>:** Thank you for taking my question. I had two clarifications first before I could get to my question.

What was the FX headwind in the quarter? And also, you highlighted about $170 million in FX headwinds to the revenue, but what's the – I'm assuming there's a benefit to the OpEx line. So, can you maybe tell us what benefit you're seeing on OpEx from the FX?

**<A – Jason Winkler – Motorola Solutions, Inc.>:** So the answer to the first question is within the quarter was $18 million of FX. And on FX in general, we have some offsets within OpEx to mitigate the effects of the gross margin dollars lost. So, there's some relief, if you will, on OpEx. But in total, the $110 million degradation from last call to this call comes with an OE impact that we are mitigating through price, through cost targets, and through allocation to higher mix.

**<Q – Fahad Najam – Loop Capital Markets LLC>:** Got it. I wanted to ask you on the component shortages, maybe if you can double-click on that and maybe provide us with color, what has improved, what has not improved, what's gotten worse, maybe give us a bit of clarity on what your line of sight is. You're clearly thinking that things will improve, but can you just give us color on what portfolio is getting most impacted by component shortages?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah. Fahad, I would say as it relates to semiconductor constraints, because that's really what we're referring to. I don't think we see it improving. I think we see it as a constant challenge throughout the remainder of 2022. What improved in Q1 was successfully navigating and negotiating and getting some increased allocation on some key parts with some key suppliers that moved it from Q2 into Q1 that allowed us to overperform the way we did top and bottom in Q1.

I would say the semiconductor constraint environment remains unchanged, i.e. still challenging. We think it will be through the remainder of the year. It is primarily around land mobile radio, but quite frankly video security is not immune completely either, but we are managing those accordingly.

**<Q – Fahad Najam – Loop Capital Markets LLC>:** Within the LMR portfolio, are you seeing more adverse impact on your higher margin PCR and LMR – sorry, APX NEXT portfolios, kind of what within your LMR portfolio is being more adversely impacted or is it all universal?

**<A – Greg Brown – Motorola Solutions, Inc.>:** I think the part of LMR that's the most challenged is PCR because we have a lot of common semiconductor parts that go into all types of radios, so we are working closely with customers around favorable mix, in particular North America and oftentimes higher-tiered devices that allow us to ship those and fulfill those orders quicker than others, so the main part of the LMR portfolio I think that feels it the most acutely is probably PCR.

**<A – Jason Winkler – Motorola Solutions, Inc.>:** The only thing I would add on the high-tier and APX, APX NEXT is the complexity of those products and the joint engineering we do and the supply lines we have for semiconductors are unique to those products and we're doing a good job in getting the security of that supply line. So, there are some commonalities, but also some uniqueness, and our key suppliers in public safety LMR are doing a good job of getting us what we need.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Agreed.

**<Q – Fahad Najam – Loop Capital Markets LLC>:** Appreciate the answers. Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thank you, Fahad.

**Operator**: Thank you, Fahad. The next question is from the line of Louie DiPalma with William Blair. Your line is now open.

**<Q – Louie DiPalma – William Blair & Co. LLC>:** Greg, Jason, Jack, and Mahesh, good afternoon from sunny Chicago.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Louie, how you doing?

**<Q – Louie DiPalma – William Blair & Co. LLC>:** Doing great. Thank you for taking my question. The William Blair team heard very positive commentary about Openpath solutions at the Commercial Real Estate Tech Conference in San Diego. So I was wondering, can you discuss your growth strategy for access control in general? And also, I wanted to note that, during the quarter, it seemed that Stanley sold its access technologies division for $900 million. And related to your strategy, do you expect to be as active with access control acquisitions as you have been with video acquisitions? Thanks.

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Okay. Louie, I'll start and Mahesh may want to color in some lines. I think, first of all, as it relates to fixed video security and access control, we've taken a premise and a look at the market to say we want to make sure we meet our customers for where they are. So, it started with the Avigilon, which is an on-prem end-to-end solution. We've invested in Avigilon cloud services, but they had a legacy access control business as well. Actually that business was actually the highest growth within the Avigilon portfolio at one point in time. But we really saw a move to cloud and mobility particularly as people want – they want smartphones capability to access a building instead of an old key card.

And I would also tell you that Openpath has seen – it's out-kicked its business case due to the fact that there's a shortage on card readers right now, like a lot of things in the hardware. So, that's really accelerated the growth into the cloud for Openpath. So, I think you will hear a lot of good things.

The other piece with Openpath, as I said, is it's cloud native which is different than the most. So we think we've got a pretty good strategy as it relates to both in terms of if a buyer wants a cloud solution or Openpath – I mean, not the cloud solution or an on-prem solution.

Mahesh, anything you want to add to that?

**<A – Mahesh Saptharishi – Motorola Solutions, Inc.>:** Yeah, I think the Openpath team launched the video intercom reader in Q1 as well and that sort of is a signal in terms of the convergence between video and access control more broadly.

If you look at the architecture of Openpath, cloud native with endpoints on-prem like readers, but also the ability to tackle existing readers, support of migration from on-prem to cloud. Ava is a very similar model as well where it can be either entirely cloud native or support a mix in between as well.

The combination of Ava and Openpath gives us the opportunity to converge many of the security and access control use cases and expand that ecosystem, so we see a strong solution there that's end-to-end for security needs.

**<Q – Louie DiPalma – William Blair & Co. LLC>:** Great. That's perfect. That's it from me. Thanks, everyone.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, Louie.

**Operator**: Thank you, Louie. The next question is from the line of Jim Suva with Citigroup. Your line is now open.

**<Q – Jim Suva – Citigroup Global Markets, Inc.>:** Thank you. A question for Greg. Greg, on your prepared comments, you mentioned improved funding. Is that coming from the stimulus plans or from property taxes? And the reason why I ask is, you know a lot of property taxes or at least where I am here in Silicon Valley, California, they're reassessed each year, so people are kind of bracing for a big property tax inflow maybe in six or nine months from – a big property tax hit in 6 or 12 months from now. So, I would assume that a lot of your budgets are moored to stimulus or maybe travel and tourism improving as opposed to real estate property taxes. And if so, does that mean that there's still kind of a second round of improved funding that's coming in?

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Hey, Jim. it's Jack. Maybe I'll take that one. So, we look at there's – if you remember, there's really three primary budgets, excluding federal stimulus, and those are operating expense budgets that are annualized. So those things pay for things like maintenance, replacement of radios, those kind of things. That's the first piece of it.

The second of which is actually 911 funding, so a lot of the portfolio are command center software budgets. Those get set – and those monies are allocated in a different way, so it's a different funding stream.

The third, as you said, are real estate and property taxes. There's more of an ebb and flow to those things. And quite frankly, historically, we don't see a big uptick in those things because public safety is need-to-have, not a nice-to-have, those are prioritized on an annual basis and it's really capital or operating expense and it's 911.

Now what's really benefited us, as I pointed out earlier, and you heard Greg in his prepared remarks, is $350 billion for state and local and $170 billion directed at schools. Those are new funding that's created new opportunities in all aspects of our portfolio.

**<A – Jason Winkler – Motorola Solutions, Inc.>:** In terms of state and local budget cycles, I'll remind everyone we have thousands of customers in North America. A common changeover in year is around July 1, so they will look at available funds as well as stimulus and set their priorities, so we'll see what those budgets look like, but all indications are with the backstop of funding that will continue.

**<A – Jack Molloy – Motorola Solutions, Inc.>:** To get real technical, there's also SPLOST taxes which are specialized purchase things and they do special taxes to raise money for county-wide systems as well. That's the only kind of one-off.

**<Q – Jim Suva – Citigroup Global Markets, Inc.>:** Great. Thank you so much for the details and clarifications. Congratulations.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, Jim.

**Operator**: Thank you, Jim. This concludes our question-and-answer session. I will now turn the floor over to Mr. Greg Brown, Chairman and Chief Executive Officer, for any additional comments or closing remarks.

**Greg Brown, Chairman & Chief Executive Officer, Motorola Solutions, Inc.**

Yeah. I just want to close – thank you for that opportunity. I want to close by thanking all of the Motorola Solutions people around the world for their commitment, resolve, perseverance in what was a strong Q1. Despite the fluid and dynamic environment, demand, it just remains exceptionally strong. The customer funding environment remains robust. We continue to make investments in software and video, and as Jason and others outlined in this call, we continue to take action to offset higher costs.

I would just say this. Macroeconomic turbulence and uncertainty presents opportunity, and we will continue to deploy capital against the backdrop of those opportunities that present themselves.

Thank you for joining us. We look forward to talking to you again in a few months. And again, to all the Motorola people, thank you, thank you, thank you. Much appreciated.

**Operator**: Ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the internet in approximately two hours. The website address is www.motorolasolutions.com/investor. We thank you for your participation and ask that you please disconnect your lines at this time.